

GROUND FISH ADVISORY SUBPANEL STATEMENT ON GEAR SWITCHING AND SABLEFISH AREA MANAGEMENT SCOPING

The Groundfish Advisory Subpanel (GAP) received an overview of this agenda item and a presentation covering the highlights of the report on Trawl Under-Attainment Issues from Dr. Jim Seger and Ms. Jessi Doerpinghaus. The GAP offers the following comments.

Statement Framework

The issue of gear switching, and the extent to which it may or may not be affecting trawl attainment, has been a challenging one for the GAP. As such, the GAP is offering a statement that includes significantly different viewpoints, in the interest of making sure the Council is aware of a wide range of perspectives. This agreement, to offer the different viewpoints, was reached by consensus in the GAP.

Before providing those viewpoints, the GAP notes that an issue has been raised about the control date and whether it will continue to apply if action does not continue on this agenda item at this meeting. The GAP points the Council to the National Marine Fisheries Service (NMFS) statement on control dates in the Sablefish Management and Trawl Allocation Attainment Committee (SaMTAAC) Agenda Item E.3, NMFS Report 1, October 2019, for more detailed information and considerations.

Statement in support of moving forward

The following comments are on behalf of the GAP members who believe that restrictions on gear switching are critical to achieving program goals and objectives. This agenda item is a continuation of the five-year review mandated by the Magnuson Stevens Act (MSA), which includes “any necessary modification of the program to meet (program & MSA) goals.” One of the primary goals of the Trawl Individual Fishing Quota (IFQ) Program was “for full utilization of the trawl sector allocation.” This is consistent with the National Standard 1 (NS1) mandate to achieve, “on a continuing basis, the optimum yield (OY) from each fishery.” All program economic goals & objectives, fishery management plan (FMP) economic program goals & objectives, and economic National Standards are predicated on OY and sustainable utilization. A mandated reduction of fixed gear attainment of northern sablefish trawl quota is required to meet these objectives.

The Amendment 20 Final Environmental Impact Statement (FEIS) stated that the groundfish trawl rationalization program was “intended to increase utilization of the groundfish resource” and “expected to provide greater opportunity to extract the full OY of higher biomass species” (see Amendment 20 FEIS Chapter 6, p. 610).

Instead of an increase in utilization, there was a massive decrease in 2011 with catch shares implementation along with gear switching, and further declines in output occurred from there. Bottom trawl catch of underutilized species in 2019 was down about 16 million lbs compared to the three-year average prior to catch shares. The [June 2020 industry letter](#) under future workload

planning signed by West Coast Seafood Processors Association, 47 trawl vessels, and MTC provides additional context and asked the Council to act on the issue of gear switching with the desired outcome of increased utilization and achievement of program goals and objectives.

Groundfish processors desire to invest to expand the fishery for the markets that are available for development. First of its kind automation for dover fillet is already a reality in one facility, and other plants could be next as noted in written public comments under this agenda item by Pacific Seafoods and Ocean Gold. However, the quantity, consistency, and certainty of northern sablefish supply is critical to allow access to other species, and ultimately to market development and investments, production increases, and attainment of the goals and objectives of the Magnuson Act.

Gear switching allows 30 percent or more of trawl sable quota to flow to fixed gear vessels, thereby decreasing overall capacity and the incentive to invest in fishery expansion. A gear switching provision that most bottom trawlers originally thought was developed to provide additional flexibility for active trawl fishermen has been in effect used to deplete their communities and opportunities. The lack of access opportunities created as a result of gear switching is a significant negative unintended consequence. There is widespread dissatisfaction with the catch shares program for many bottom trawlers and groundfish processors that continues to grow as the fishery and communities deteriorate.

Potential Gains

A mandated reduction of fixed gear attainment of northern sablefish is required to:

- Increase attainment of trawl sector allocations, meet Management Goals 2 and 3 of the FMP, and achieve OY.
- Ensure that trawl vessels have dedicated access to northern sablefish quota to enable them to increase yields of other groundfish stocks and avoid stranding yields that could be sustainably harvested.
- Provide certainty to the trawl sector so processors have confidence to invest millions of dollars in equipment and years of time in market development.

As a primary goal of the program was increased utilization, and many key annual catch limits (ACLs) have increased in the last six years, and Rockfish Conservation Areas (RCAs) have been partially removed providing greater spatial access, then the absolute minimal short term goal from reducing fixed gear attainment should be to gain back the 16 M lbs annual loss under catch shares and gear switching, with additional growth from there. If gear switching were to be phased out, the resulting certainty of sablefish supply to the trawl and groundfish processor stakeholders would incentivize investments, market development, and efficient use of sablefish in targeting other species. Many processors and trawl vessels are prepared to increase output and are confident that utilization would increase significantly under these conditions. While there is uncertainty about the maximum gains that could ultimately be achieved, we do know that our communities, plants and trawl vessels will never get anywhere close to achieving optimum yield without a mandated reduction in fixed gear attainment of trawl sector sablefish quota.

Recommendations

1) A functioning trawl fishery using as much of its sablefish trawl allocation as possible to leverage far more catch of other species fulfills the goals and objectives of the program and FMP, and the NS1 mandate for achieving OY. Therefore, a mandated reduction of fixed gear attainment of northern sablefish trawl quota is required. This would provide increased employment, increased community stability, and added food production and security for this nation. For these reasons, **it is imperative that the Council move forward with the gear switching agenda item at this meeting.**

2) The purpose and need statement is one of the items worked on by the SaMTAAC during their two plus years of meeting. NMFS proposed a purpose and need statement with core elements that went through several modifications by the SaMTAAC until it was ultimately approved by that group. Many trawl interests would prefer strengthening it and some fixed gear interests might prefer weakening it. However, since the SaMTAAC was able to move forward with the current iteration, and in the interest of not going backwards, **it is best at this point to adopt the current purpose and need statement as is.** If it is opened back up for modification, trawl proponents would have many suggestions.

3) A mandated reduction in fixed gear attainment of northern sablefish as soon as possible would give the catch shares program necessary capacity to meet its goals and objectives and achieve OY. Currently, of the four SaMTAAC alternatives (counting status quo as an alternative), only one mandates a reduction of fixed gear attainment below the status quo level of approximately 30 percent. That one alternative has a 20 percent cap and phases down to 10 percent over time. **Therefore, for a satisfactory range of alternatives, it is necessary to add an alternative with a fixed gear cap below 20 percent.** It could be the trawl stakeholder proposal #2 that Pacific Seafood references in their written public comment and/or elimination of gear switching to provide the ultimate bookend for analysis and consideration.

Table 1 – Maximum allowed % of fixed gear attainment of northern sablefish trawl quota under each alternative –Alternative #'s 1 & 2 have a range due to the various sub-options in each alternative.

Alternative	Maximum allowed % of fixed gear attainment of northern sablefish trawl quota
SaMTAAC #1	30% to 100%
SaMTAAC #2	~ 30% to ~ 75%
SaMTAAC #3	20%
Trawl Stakeholder #2	10%
Gear Switching Elimination	0%

4) If the Council wishes to provide opportunity for fixed gear vessels to harvest larger amounts of sablefish on the west coast than solely afforded them in the tier fishery to take advantage of economies of scale, they could increase **tier ownership and usage limits in the limited entry fixed gear (LEFG) fishery**. That would allow a fixed gear vessel that owned trawl IFQ quota to transition some or all of that investment into the tier fishery over time.

Competition Challenge

Like any business, seafood is competitive and there is an abundance of imports. The size of the groundfish market is no problem, but the competition is a challenge. Processors are looking to meet the challenge with automation and efficiencies, but the challenging business climate makes the need to address and reduce gear switching all the more important in order to have a viable groundfish fishery for trawlers, a certainty of supply, and precise deliveries in the marketplace expected by customers.

However, for fixed gear sablefish, the issue is more of a market problem. The primary market in Japan that has supported high prices in recent years has declined significantly. The Japanese population is declining, and taste preferences are changing. The 2020 sablefish annual catch limit (ACL) in Alaska was intentionally set well below what science said it could be, and **Alaska is still on pace to leave about 10 M lbs of sablefish in the water this year**. Fixed gear sablefish has a market problem. It would be better to build up the West Coast trawl groundfish fishery instead of tearing it down by continuing to allow its sablefish quota to be extracted by fixed gear just to supply an oversaturated Japan market.

Statement opposed to moving forward

The following comments are on behalf of those GAP members who do not believe that restrictions on gear switching are warranted.

The SaMTAAC charges from the Council is as follows:

Identifying obstacles to achieving the goals and objectives of the catch share plan related to under attainment of non-sablefish trawl allocations and unharvested sablefish quota pounds (QP) south of 36° N. latitude. As appropriate to overcome identified obstacles, the committee will discuss and develop options, including but not limited to, actions that may modify rules for gear switching by trawl permit holders and QP leasing to vessels using fixed gear, as well as options that may encourage increased utilization of sablefish QPs south of 36° N. latitude.

The Council's core request to the Committee, *to identify obstacles to achieving the goals and objectives of the catch share plan related to under attainment of non-sablefish trawl allocations and unharvested sablefish quota pounds (QP) south of 36° N. latitude*, has resulted in limited discussion as to the causes related to under attainment of non-sablefish trawl allocation. From our perspective this is due to the limitations the Council process has in marketing development for unused species. Additionally, the Council and Committee decided to drop the concern about utilizing the surplus southern sablefish north of 36° N. latitude, even on a temporary basis.

Our perspective is that the limited discussion the committee had on the inability of the trawl fleet to harvest the dover sole acceptable biological catch (ABC) and other species centers on market demand. This demand is currently being filled by competing imports such as tilapia and Vietnamese catfish. The current market demand for dover sole is limited to the point that U.S. processors must put their vessels on poundage delivery limits so as not to oversupply the market. We found it noteworthy that all the major processors who support some version of limiting gear switching offer tilapia and Vietnamese catfish for the U.S. markets, which actually works against developing and supplying under attained non-sablefish trawl allocations.

The MSA is primarily aimed at achieving and maintaining sustainable fisheries, and it provides the Council with powerful conservation and management tools that include setting harvesting limits and developing allocations among sectors. Responsibilities for development and operation of commercial markets, on the other hand, lie primarily with non-governmental organizations. The tools the MSA provides to the Council are not optimized for addressing problems that are fundamentally those of the commercial market and it is important to use such tools as the Council has in ways that do not result in market distortions. It is understandable that none of the restrictive options on gear switching developed by SaMTAAC address the market demand issues affecting dover sole or other unattained non-sablefish trawl allocations. Therefore, the options cannot be effective in responding to the charge the Council gave to the SaMTAAC committee.

It has been suggested at the Committee meetings that action may be needed to address the long-term issues with gear switching, but those issues were never defined. No one can make the argument that existing gear switching has resulted or is resulting in the non-sablefish trawl allocation not being achieved. The data reviewed by SaMTAAC shows that from 2011 through 2019, harvestable trawl limits of sablefish were never fully reached. The alternatives developed from the SaMTAAC attempt to protect against something that has not yet happened, based on assumptions that have not been validated. Trawl (QP) have been left after each year, and had it not been for gear switching in the fall and early winter of each year, the sablefish trawl IFQ would have probably been under-harvested an additional 30 percent to 35 percent.

To further reflect on the annual usage of trawl sablefish for gear switching, the Council needs to recognize that it is the trawl fleet that asks the fixed gear fleet to lease and catch the remainder of unused trawl sablefish on an annual basis. This usually occurs from late summer through December. We learned at the SaMTAAC meetings that the trawl fleet owns and controls about 90 percent of the sablefish trawl IFQ's. What has been occurring up until now is a willing lessor or seller has worked with a willing lessee or buyer to harvest trawl sablefish at times using fixed gears to harvest 30 to 35 percent of the sablefish harvest limit. We did not find at the SaMTAAC meeting that gear switching resulted in the under attainment of trawl ground fish allocations.

We estimate that currently the asset value of selling (not leasing) sablefish in the trawl program is about 11-14 dollars a round pound. Last year, some sold at 15 dollars a round pound, and the year before that some sold at 20 dollars a round pound. Sablefish that can only be caught with a trawl will be valued at about 4 to 6 times the ex-vessel **trawl price** or maybe 3 dollars a pound or less today. The ex-vessel trawl prices have actually been lower than \$0.50 this year to trawlers so the asset value of three dollars per pound may be high. Sablefish asset holdings that have a permit, such that they can be gear switched and whether it is activated or not, will be valued at **4 to 6 times fixed gear prices**. The average fixed gear price this year has been \$2.20 a pound, so the asset value

would be about 12 dollars a pound. We would expect that every gear switching permit holder would buy up a maximum CAP of sablefish and do so by seeking out those trawl permit holders that are no longer allowed to gear switch their quota. The trawler-only sablefish will be offered at three dollars a pound, not 11 to 14 dollars a pound. The Council will be devaluing the majority of sablefish trawl holdings under any of the options developed by SaMTAAC.

The IFQ trawl allocation of sablefish for 2020 is 6,003,045 pounds. If the Council's actions were to restrict in some fashion the allocation to gear switching to 30 percent of the trawl allocation, that would mean 4,202,131 pounds of trawl sablefish would not be allowed to be gear switched. The loss in asset value to the trawl fleet would be approximately \$42,021,310 (or \$10 per pound x 4,202,131 pounds). This assumes a ten-dollar value difference between trawl-only IFQ and gear switching opportunities. Neither the Council nor the SaMTAAC has examined the devaluation effects of these options on the trawl industry and what impact that might have on maintaining extra trawl vessels and trawl IFQ holder's viability. If the Council proceeds further with this discussion, this economic impact must be studied.

The three SaMTAAC alternatives presented to you are assumed methods to attempt to force the delivery of trawler (QP) of unused species by restricting gear switching. The problem with these options is that people (trawlers) are currently making a choice to gear switch, because a return on investment can be achieved with this choice. That cannot be claimed by trying to force trawl (QP) holders to deliver more dover sole along with sablefish by restricting gear switching. Indeed, there is currently a self-imposed industry landing limit on dover sole. These three options fail to address this self-imposed landing restriction. The Council may very well find that its actions put trawl QP holders to such a disadvantaged position that neither dover sole nor sablefish harvest limits are attained. Actually, this is occurring in 2020 without action by the Council. This is due to the collective market choices of the QP holders and processors, and neither harvest limit will be attained in 2020.

The sablefish markets have crashed for a variety of reasons. The price is 55 percent to 60 percent below prices in 2019. The COVID pandemic has closed restaurants in the United States and Japan. Japan has in the past imported 60 percent to 65 percent of all U.S. sablefish. The U.S. trade issues with China have further impacted the market. China represents 7 to 10 percent of the sablefish market. The North Pacific Council announced in December 2019 that the 2021 harvest of sablefish off Alaska could increase 25 percent. The sablefish market is going to take several years to recalibrate itself and may never be what it was two years ago. We do not see the demand for gear switching in 2020 or 2021 as has occurred in the past. The landings of sablefish from the trawl IFQ program for the Pacific Fishery Management Council, as of August 2020, shows 1,798,798 lbs. have been harvested out of 6,003,045 pounds or 30 percent. It is highly doubtful that there will be fixed gear vessels interested in leasing fish this year, given the poor prices. Indeed, not even trawlers are targeting sablefish to any great degree.

In summary, a number of industry representatives on the GAP do not believe the SaMTAAC adequately addressed how to enhance market demand that accounts for unattained trawl species and that the Council does not have the tools to deal effectively with this core problem. If the Council takes action that does not address market demand, it could distort the market, leading to further problems demanding yet more solutions.

The three restrictive alternatives developed by the SaMTAAC do not guarantee additional non-sablefish species will be delivered. The SaMTAAC did not discuss how the alternatives they created address self-imposed limits of non-sablefish trawl species, such as are currently imposed on dover sole. All of the alternatives developed by the SaMTAAC will have a devaluation effect on the asset holdings of the trawl fleet that will not be reclaimed if a restriction is imposed on gear switching. We request the Council to stand down on developing restrictions and further development of a purpose and need statement for their restrictions.

We suggest the Council monitor gear switching activity on an annual basis and submit findings to the Commerce Department, which has resources and tools to work cooperatively with industry in addressing issues of market demand in the context of unused trawl non-sablefish allocations.

However, members of the GAP who recommend halting any further limitation on gear switching also recognize that the Council may move forward with an analysis of alternatives to limit gear switching, and are seeking guidance from advisory bodies as to principles to consider.

In that vein, if the Council decides to choose an alternative that adds a gear switching endorsement to a permit, we make the following recommendations:

- Recognize the financial investment made by entities who have invested in gear switching
- That there be no arbitrary expiration date on permit's ability to gear switch (as suggested in Alt 2 and 3)
- Allow transferability of gear switching endorsement upon transfer of ownership of permit
- Base eligibility of permit to gear switch on significant participation and investment during 2011 to 2018
- Minimize the amount of pounds allowed to be landed by gear switching by those that don't qualify for initial endorsement (should be much less than 1 percent in one proposed alternative), so as not to constrain gear switching permit qualifiers or attract new entrants
- Vessels that carry a gear switching endorsed permit should be allowed to land up to vessel cap of 4.5 percent
- Persons or entities who own a gear switching permit should be allowed to acquire up to an ownership limit of 3 percent

And, in the event the Council chooses to consider further development of any alternatives that are not permit-based, such as the annual quota pound use designations in the SaMTAAC Report Alternative 1, it is important to insure that a broad range of alternatives be considered to assess potential impacts.

Certain of those considerations are:

- The percentages of restricted QP (trawl only designation) and unrestricted QP (All gear designation); and
- The annual date when a "trawl only" restriction would be lifted; and
- The participation criteria (i.e. the number of years, amount of landings) that would qualify trawl QS owners that intend to gear switch the opportunity to "opt-out" entirely from any gear use restriction.

The following recommendations are but short comments, to be expanded upon in the event the Council goes forward.

Generally, we ask that the options for alternatives "freeze" the fleet in time as to landings and participation at about the current 35 percent of the sablefish individual quota (IQ) landings or the 2018 levels. The Council may wish to compare participation by landings to participation by ownership of quota share by gear switchers--approximately 10 percent. There may also be a range in between the two percentages that accommodates a market-based solution, that recognizes that trawl IQ owners actively lease sablefish quota to trawl permitted fishermen using fixed gear (FG).

Like the quota share allocated to trawlers at the beginning of the quota share program, those who purchased trawl permits and quota and use FG also need some sense that the privilege granted not be yanked out from under their feet. Imposing an arbitrary termination--such as 5 years or 12 years, doesn't take into account money borrowed or investments made to lawfully participate in a fishery into which they were invited.

We also suggest that that the gear endorsement for switching gear be transferable, though future participation could be limited to the seller's history in gear switching. We ask the Council to recognize that these are often family-based businesses, and next generations are engaging in this fishery. Family members want to be able to transfer to the next generation the business and investments made that they have spent a lifetime building.

Regarding poundage qualifiers, the Council has been provided various tables of how many operations would be allowed to continue to gear switch depending on landings and/or ownership. We would suggest that significant participation across the life of the program be recognized.

Regarding a percentage to be made available to those who do not qualify for an initial gear switching endorsement, we recommend that the amount be very small. The suggestion of one percent seems to be very high, unless it is meant as a total for all entities who do not receive an initial gear switching endorsement. If you do not qualify initially, but can then go out as an individual operation and begin gear switching, the one percent would be a target for many new operations, given the availability of trawl permits and the fact they can be leased. The percentage we would suggest should be something akin to whatever percentage of quota 2500 pounds or less might represent, for example.

Additionally, those who are allowed to continue to gear switch should be able to fully participate and receive from their investment the same privilege that trawl net fishermen enjoy when they were freely allocated quota at the start of the program, which represented, in part, their history and investment in the fishery. In other words, if gear switching is limited, then the remaining permit holders allowed to gear switch should continue to be able to own up to 3 percent and utilize a vessel limit of 4.5 percent, similar to that of trawl net fishermen.

Lastly, we have some objection to being referenced in the documents as gear switching potentially receiving a "grandfather privilege" and suggest some other language be utilized. All of us who have participated first, in limited entry, received a permit, based on our participation and landings in either the trawl or FG fishery. Limited entry FG permit holders subsequently received tier

permits because of significant landings and history of participation in the fishery. Likewise, trawl net fishermen, after implementation of limited entry, received initial allocation of quota share based in part on their investment and participation. People who have purchased trawl permits and quota and gear switch--we are not asking for a special privilege, but if the Council is going to limit gear switching, we suggest that the Council would simply be following the precedent set by issuance of limited entry permits, tier endorsements, and trawl IQ.

PFMC
09/10/20